

# Weekly economic review

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# A look at this week's markets

At the close on Thursday



## Canadian Bonds (total return)

		<i>Year-to-date</i>
FTSE TMX Universe	-0.26%	0.66%
FTSE TMX Long Corps	-0.63%	0.91%
	-0.20%	0.79%

## Equities (total return)

S&P/TSX	1.25%	3.82%
S&P 500	1.44% (1.98% CAD)	5.75% (10.65% CAD)
EAFE (in USD)	-0.18% (0.36% CAD)	-2.37% (2.16% CAD)
MSCI Emerging (in USD)	1.16% (1.7% CAD)	-6.24% (-1.9% CAD)

## Other (WTD change)

			<i>Year-to-date</i>
Oil (WTI)	70.33 \$	-4.70%	16.40%
USD/CAD	0.7602 \$	-0.53%	-4.43%
Gold	1 247.39 \$	-0.64%	-4.25%

# What caught our eye this week

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- ▶ Canada:
  - ▶ Bank of Canada hikes its leading rate, as expected...

# Bank of Canada:

## A rather upbeat view, despite trade uncertainty



**Table 2: Contributions to average annual real GDP growth**

Percentage points\*†

	2017	2018	2019	2020
Consumption	1.9 (2.0)	1.3 (1.5)	1.3 (1.2)	1.2 (1.0)
Housing	0.2 (0.2)	0.1 (0.0)	0.0 (0.0)	-0.1 (-0.1)
Government	0.6 (0.6)	0.7 (0.6)	0.3 (0.3)	0.4 (0.4)
Business fixed investment	0.3 (0.3)	0.7 (0.4)	0.2 (0.3)	0.2 (0.3)
<i>Subtotal: final domestic demand</i>	3.1 (3.1)	2.8 (2.5)	1.8 (1.8)	1.7 (1.6)
Exports	0.3 (0.3)	0.5 (0.0)	0.8 (0.9)	0.8 (0.8)
Imports	-1.2 (-1.2)	-1.2 (-0.5)	-0.4 (-0.4)	-0.6 (-0.6)
<i>Subtotal: net exports</i>	-0.9 (-0.9)	-0.7 (-0.5)	0.4 (0.5)	0.2 (0.2)
Inventories	0.8 (0.8)	-0.1 (0.0)	0.0 (-0.2)	0.0 (0.0)
<b>GDP</b>	3.0 (3.0)	2.0 (2.0)	2.2 (2.1)	1.9 (1.8)
<b>Memo items (percentage change)</b>				
Range for potential output	1.4–2.0 (1.4–2.0)	1.5–2.1 (1.5–2.1)	1.4–2.2 (1.4–2.2)	1.3–2.3 (1.3–2.3)
Real gross domestic income (GDI)	4.0 (3.9)	2.6 (2.5)	2.3 (1.9)	2.0 (1.8)
CPI inflation	1.6 (1.6)	2.4 (2.3)	2.2 (2.1)	2.1 (2.1)

\* Numbers in parentheses are from the projection in the previous Report.

# Bank of Canada:

## Canadian households not that vulnerable to rising rates

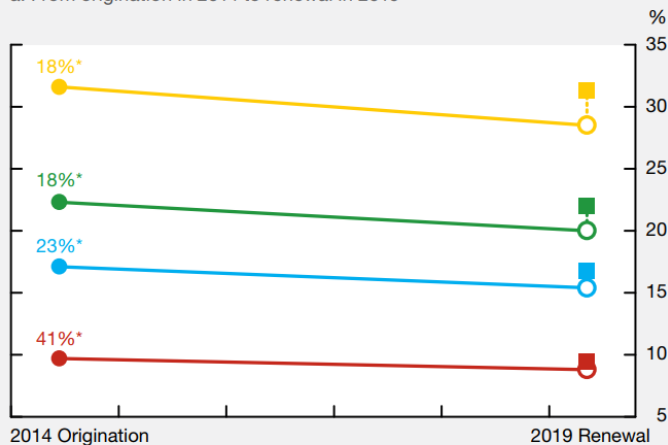


### The impact of rising interest rates on mortgage holders

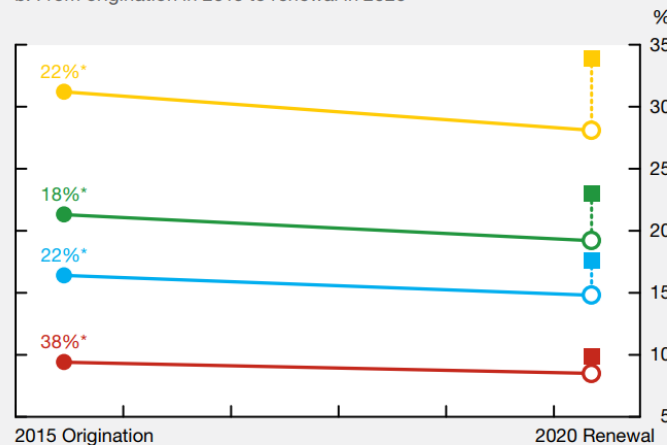
**Chart 3-A: Illustration of the impact of higher interest rates on mortgage debt-service ratios**

Annual mortgage payments as a percentage of annual income for 5-year fixed-rate mortgages, at different household indebtedness levels at origination

a. From origination in 2014 to renewal in 2019



b. From origination in 2015 to renewal in 2020



— Loan-to-income ratio below 250%    — Loan-to-income ratio between 250% and 350%    — Loan-to-income ratio between 350% and 450%    — Loan-to-income ratio above 450%

Note: Solid circles represent actual mortgage debt-service ratios (MDSRs) at origination; open circles represent estimated MDSRs before renewal; squares represent estimated MDSRs at renewal.

\* Numbers above solid circles are the share of 5-year fixed-rate borrowers at each indebtedness level.

Sources: Regulatory filings of Canadian banks and Bank of Canada calculations

# What we'll be watching next week

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- ▶ Canada:
  - ▶ Manufacturing Sales (last month: -1.3% MoM in April)
  - ▶ Retail Sales (last month: -1.2% MoM in April)
  - ▶ CPI Inflation (last month: 2.2% in May)
- ▶ U.S.:
  - ▶ Retail Sales (consensus: lower at +0.6% in June)
  - ▶ Industrial Production (consensus: higher at +0.5% MoM in June)
  - ▶ Housing Starts (consensus: stable at 1325K in June)
  - ▶ Building Permits (consensus: stable at 1325K in June)



## To contact us

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